



## **Caltex Australia Limited**

# **Submission to the inquiry into the provisions of the *Petroleum Retail Legislation Repeal Bill 2006***

**13 April 2006**

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### **1. Caltex – The way we do business**

The Caltex retail network has over 580 sites nationally. With over 400 franchisees, including multi-site franchisees, and 68 company operated stores in the network, Caltex has one of the largest franchise networks in Australia and the largest in the retail fuel and convenience store market.

Caltex considers the major benefits of the petroleum market reform package to be a streamlining of the regulatory framework for the retail petroleum industry, provision of greater transparency of pricing and the removal of structural restrictions on competition, as the Minister for Industry, Tourism and Resources has stated. Most importantly, it will put all competitors on a level playing field, unlike the current legislation.

Caltex is not planning any significant changes to its business model or operations. Caltex is close to completing development of a new franchise agreement with its franchisees. The new agreement offers a simpler and more streamlined system for Caltex franchisees and was developed in close consultation with Caltex's National Franchise Council.

Caltex will keep its current formula of optimising both its franchise partnership and company operations.

### **2. Franchise relationship**

In contrast to recent trends among our competitors, Caltex is embracing franchising because Caltex values franchising as a key to our market leadership today. Caltex values its relationship with franchisees, and is a long-standing member of the Franchise Council of Australia (FCA).

Caltex has an extensive franchisee consultative structure with representatives from the franchise network involved in national, state, and special projects as an opportunity for their voice to be heard on key developments within Caltex retail.

Caltex's current agreement was introduced ten years ago and during the past two years there have been significant changes in the marketplace that needed to be recognised in an agreement for the future. Key changes in the agreement include a new economic model, provisions for performance management accountability and maintenance of brand standards.

The current PRMF Act offers tenure of 3+3+3 years. Our current agreement is 5 + 5 years if we own or head lease the site (which is the case for most franchise agreements).

The proposed Oilcode will preserve the total 9 year tenure under the PRMF Act. Caltex will continue to offer a 5 + 5 years tenure under the new Star Agreement for franchisees, greater than required under the act or proposed Oilcode.

Caltex has committed that no current franchise agreement terms will be changed as a consequence of the market reform package. In addition, the Oilcode explicitly preserves the duration of existing franchise contracts.

### **3. Woolworths relationship**

Caltex and Woolworths have a retail venture to provide Woolworths/Safeway and Big W shoppers in Australia with discounted fuel. Shoppers nationwide have easy access to quality discounted fuel (petrol and other selected fuel products) at around 470 Caltex Woolworths/Safeway service stations adjacent or near to a Woolworths/Safeway supermarket or Big W store.

There are currently 127 Caltex sites in the co-branded venture. All are competitors in their own right under the Trades Practices Act. Caltex and Ampol branded sites compete directly with Caltex Woolworths co-branded sites.

The Caltex-owned sites under the Caltex Woolworths venture all operate under commission agent agreements. Woolworths owns the fuel under this commission agent agreement and controls the board price. 95 sites out of the 127 have a Caltex shop franchisee agreement and the remaining 32 are Caltex company operated sites.

This means there are five major competing brands in the retail market – Caltex Woolworth, Coles Express Shell, Caltex/Ampol, BP and Mobil. There are also significant minor brands including United, Gull and 7-11. However, the regulatory advantage enjoyed by companies not covered by the Sites Act – particularly the supermarkets – provides an unfair competitive advantage and reduces competition.

### **4. Caltex position on the market reform package**

The reform package will be beneficial for price competition and provide greater protection for small business. As Minister Ian Macfarlane has said, increased competition has the potential for positive impacts on fuel prices, particularly in rural and regional areas. Further to that, Caltex is providing substantial price support (rebates on wholesale prices) to our Caltex franchised sites (non Woolworths branded) in what is a highly competitive market.

Caltex believes that one of its key success elements in the petrol and convenience store market comes from our franchisees, the level of operational excellence they achieve and their commitment to the Caltex brand. Caltex has shown its commitment to franchising through the development of the new Star Agreement. This has had franchisee involvement through its development over the last 2 years.

We have no plans to walk away from our franchise network or make major changes our retail model as a result of the implementation of the reform package.